



Northwest/Alaska

U.S. Department of Housing and Urban Development

Office Multifamily Housing

Northwest/Alaska Multifamily Hub

March 2000

Instructions for Appraisal Checklist

"223(f)\$1 Million or Less, Small Projects"

(Five or More Units, Maximum Loan Amount \$1,000,000)

This checklist is for States within jurisdiction of the Northwest/ Alaska MF Hub

I. Appraisal Format

- A. The required complete narrative appraisal is in summary report format, conforming to USPAP, documented on HUD-92264 form with HUD-92273 & 92274 rent comparison and operating expense forms are to be completed and included with the report. This format is for the **"223(f) \$1,000,000 Small Projects"** only. Be advised that lender will prepare the HUD-92264A. **(NOTE, FHLMC Form 71B with summary appraisal, maybe used as an alternate at the election of the lender for 223f processing)**
- B. All three approaches to value are required. The conclusion to value must be "As Repaired" on the form. (Use a cover sheet in the narrative to indicate "As Is" value, if necessary.) Remaining Economic Life and Effective Age are also based on repairs being completed.
- C. The HUD forms are the controlling documents and. the narrative appraisal report will be used to supplement the forms.
- D. FHA requires original and two copies of the appraisal report.
- E. The lender is required to provide the appraiser a copy of the Engineering Report along with the name and telephone number of the inspector.

II. Property Requirements:

Multifamily residential, 5 or more units, maximum loan \$1,000,000. Mixed use ok with limitations. (see below **"VIII. H. Income Approach, Mixed Use Properties"**)

III. Appraiser Qualifications:

Minimum qualifications: Certified General Appraiser with experience and knowledge of HUD 223(f) appraisal procedures.

IV. Required Exhibits:

- A. Photos
 - 1. Subject: 4 photos; front, rear & 2 street scenes; include anything unusual in viewfinder.
 - 2. Rent comps & sales comps: one photo of each.

3. Land comps: Photos & plat maps are not required.

B. Plat Map (subject only)

C. Building Sketch

D. Unit Sketch

E. Maps for comp locations

F. "Letter of Engagement" between lender and appraiser with copy of this Appraisal Checklist attached. (2 page chart only).

V. Summary narrative to include the following:

A. Most information is specified on the HUD-92264 form. Use the narrative to elaborate when necessary. It is expected that the narrative will be a supplement, and as such, relatively short. Include the following:

1. Place any additional neighborhood data in the narrative addendum to point out possible problems (mixed use, transitional from multifamily to industrial, etc.).
2. Summarize Highest and Best Use "As Vacant" and "As Improved". If different, explain.
3. Three year sale history of subject.

VI. Physical Inspection:

Inspect one of each unit type and the "best and worst" units. Use discretion: If 20 studio units, inspect more than 1 unit!

VII. For Sales Comparison approach:

Summary discussion of GIM, Cap rates, and units of comparison used in analysis. Indicate how each sale relates to the subject.

VIII. For Income approach:

- A. The appraiser determines the unit sizes. Explain the method used. Attach perimeter sketch and unit sketch.
- B. Discuss income for subject. Discuss vacancies in subject, comparables and neighborhood (all three). (note, a documented stabilized vacancy and collection rate of not less than 5 percent is acceptable for the appraisal which is a HUD underwriting standard)
- C. Brief discussion of project's historical and current operating statement, if available. If operating statements not available, consult service providers, tax assessor or expense comparables for best estimates. Appraiser's discretion as to which to use.
- D. Note differences between market and actual project rental income and expenses (trended rents are not allowed in the HUD processing).
- E. Illegal units: Upon physical inspection, if it appears there are illegal units, then verify. Do not count income or expenses from illegal units.
- F. **Replacement Reserve** is \$150 or more Per Unit Per Annum (Pupa). Note: **RR** is not a percent of replacement cost as in the regular 223(f) program.
- G. Use Gross Income Multiplier and/or Overall Capitalization Rate. Discounted Cash Flow not to be used.
- H. **Commercial Income, Other Income and Vacancy Factor** require special attention. It should be understood by all parties that a mixed use project will require a more detailed appraisal and a higher fee. **(SEE APPRAISAL INSTRUCTIONS IN HUD NOTICE 99-33, DATED 11/23/99, APPENDIX 2, PAGES 1 & 2)**

1. The Effective Gross Commercial Income cannot exceed 20 percent of the Property's total Effective Gross Income.
2. Brief narrative of all market derived indicators. Discuss vacancy rate, trend of commercial, type and length of lease, expenses related to commercial.
3. Does commercial in the subject enhance, detract from, or have no effect on residential use?
4. Note for comparable selection: Best choice is similar mixed use projects with similar ratio of commercial to residential. If those not available, ok to use straight apartments for residential, and best available commercial comparables. Adjust the rents and cap rate accordingly with explanation in the narrative.
5. HUD underwriting standard requires a minimum 10% vacancy factor for commercial property in a multifamily complex.
6. The commercial income analysis will be in the narrative report.

IX. For Cost approach:

- A. The Cost Approach is required.
- B. Support land value with appropriate number of comparables. Use depreciated replacement cost.
- C. **Remaining Economic Life and Effective Age:** Remaining Economic Life and Effective Age are to be determined assuming the property is in "as repaired" condition. Give some thought to these items. They have a major impact on the processing. The amortization period of the loan is limited, by regulation, to 75% of remaining economic life. For example, a 40 year remaining economic life has a maximum loan term of 30 years.

The initial deposit to Replacement Reserve is based on the **effective age** of the project after repairs are complete. The higher the effective age, the higher the initial deposit.

X. Checklist:

See attached summary of these guidelines in chart/checklist format. This chart/checklist is to be attached to the appraiser's "letter of engagement" with the lender.

Seattle Federal Office Building · 909 First Avenue · Suite 190 · Seattle, WA 98104-1000
Oregon Program Center · 400 Southwest Sixth Avenue · Portland, OR 97204-1632

www.hud.gov/local/sea/mfh/seamfhpg.html